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The 'Alternative Quality Contract,' Based On A Global Budget, Lowered Medical Spending And Improved Quality

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ABSTRACT Seven provider organizations in Massachusetts entered the Blue Cross Blue Shield Alternative Quality Contract in 2009, followed by four more organizations in 2010. This contract, based on a global budget and pay-for-performance for achieving certain quality benchmarks, places providers at risk for excessive spending and rewards them for quality, similar to the new Pioneer Accountable Care Organizations in Medicare. We analyzed changes in spending and quality associated with the Alternative Quality Contract and found that the rate of increase in spending slowed compared to control groups, more so in the second year than in the first. Overall, participation in the contract over two years led to savings of 2.8 percent (1.9 percent in year 1 and 3.3 percent in year 2) compared to spending in nonparticipating groups. Savings were accounted for by lower prices achieved through shifting procedures, imaging, and tests to facilities with lower fees, as well as reduced utilization among some groups. Quality of care also improved compared to control organizations, with chronic care management, adult preventive care, and pediatric care within the contracting groups improving more in year 2 than in year 1. These results suggest that global budgets with pay-for-performance can begin to slow underlying growth in medical spending while improving quality of care.

Amid mounting federal spending and debt, slowing the growth of health care spending is a national priority.^{1,2} Much policy attention has been focused on using global budgets within accountable care organizations because these kinds of payments have the potential to lower spending while improving the quality of care. A global budget is a prospective reimbursement to a health care provider, such as a physician or hospital, that reflects the total expected spending of its patient population over the continuum of care for a defined period.

Through the Medicare Shared Savings Program established under the Affordable Care

Act,³ provider groups can become accountable care organizations by choosing a “one-sided” model in which a group shares savings with Medicare if the group’s spending is below its prespecified target. Provider groups can also choose a “two-sided” model in which they share savings but also assume risk for excess spending over their targets—in which case a target is analogous to a global budget.⁴ Both models reward providers for meeting quality benchmarks.

In January 2012 thirty-two organizations across the country began Pioneer Accountable Care Organization contracts through the Center for Medicare and Medicaid Innovation, which uses the two-sided model, with greater reward

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in exchange for greater financial risk. Outside of Medicare, about a hundred provider organizations have worked with private insurers to implement contracts that would pay them as accountable care organizations.⁵ In Massachusetts, lawmakers are proposing legislation to expand global budgets throughout the state.⁶ Despite this momentum, however, there is limited evidence on the effects of global budgets within accountable care organization contracts on health care spending and quality.^{5,7}

In 2009 Blue Cross Blue Shield of Massachusetts entered into global budget accountable care organization agreements with seven provider organizations in the state via the Alternative Quality Contract.⁸ In the first year of implementation, the Alternative Quality Contract was associated with a 1.9 percent lower increase in total medical spending and modest quality improvements, compared to control groups.⁹ These initial savings were largely achieved through shifting referrals to less expensive providers and settings rather than through reducing utilization¹⁰—a strategy that is not likely to achieve substantial additional savings year after year.

Four additional organizations joined the Alternative Quality Contract in 2010, bringing total participation to more than 1,600 primary care physicians and 3,200 specialists. Organizations ranged from large physician-hospital organizations to groups of small practices (Appendix Exhibit 1).¹¹ The contract pays providers a global budget that covers the entire continuum of care for a defined population of enrollees each year. Many analysts believe that global budgets with financial risk provide more powerful incentives to control spending than the one-sided “shared savings” payment model based on a spending target.^{12–14} In addition, the Alternative Quality Contract rewards provider groups with up to 10 percent of their global budget for meeting a set of sixty-four quality measures (Appendix Exhibit 2),¹¹ which broadly overlaps with the thirty-three quality measures used by Medicare.¹⁵

The Alternative Quality Contract is a five-year contract that currently applies primarily to enrollees in health maintenance organization plans. These members are required to designate a primary care physician prior to each enrollment year. Thus, an enrollee is “in” the Alternative Quality Contract if his or her primary care physician belongs to an organization that has joined the contract. This arrangement works in a way similar to patient-centered medical homes, in which patients are attributed to a primary care physician.^{16–19}

Blue Cross Blue Shield of Massachusetts gives organizations in the Alternative Quality Contract technical support, such as ongoing quality and

spending data, to help them manage their global budgets and improve quality.

In this study we evaluated the effect of the contract on spending and quality after two years. We also analyzed its first-year effect on the four organizations that entered the contract in 2010.

Study Data And Methods

STUDY POPULATION Our population included Blue Cross Blue Shield of Massachusetts enrollees from January 2006 through December 2010 who were continuously enrolled for at least one calendar year. The 2009 cohort consisted of enrollees whose primary care physician joined the Alternative Quality Contract in 2009. The 2010 cohort consisted of enrollees whose primary care physician joined in 2010. The control group consisted of enrollees whose primary care physician did not enter the contract.

STUDY DESIGN We used a difference-in-differences approach to isolate the effect of the Alternative Quality Contract on spending. For the 2009 cohort, the pre-intervention period was 2006–08 and the post-intervention period was 2009–10. Within this cohort, we prespecified two subgroups.

The “prior-risk” subgroup consisted of four organizations that had prior experience managing risk-based contracts from Blue Cross Blue Shield of Massachusetts. Enrollees here constituted 88 percent of the 2009 cohort. The three remaining organizations were placed in the “no-prior-risk” subgroup, which meant that Blue Cross Blue Shield of Massachusetts had previously paid them fee for service. Enrollees here constituted the remaining 12 percent of the 2009 cohort.

We decomposed the average two-year effect on spending into year 1 and year 2 effects. We also studied the year 1 effect on spending in the 2010 cohort. All four organizations in the 2010 cohort entered the contract without risk-contracting experience. Thus, we compared the 2010 cohort’s year 1 finding to the analogous year 1 finding in the no-prior-risk subgroup of the 2009 cohort.⁹

We also decomposed the spending effect by clinical category, as defined by the Berenson-Eggers Type of Service classification system;²⁰ site and type of care; and enrollees’ health status using the health risk score.²¹ Finally, we decomposed the spending result into a price effect and a utilization (volume) effect.

We first repriced claims for each service to their median prices across all providers in 2006–10. Spending results generated using repriced claims reflected only differences in utilization. We further decomposed the price effect

into two price-related explanations: differential fee changes between treatment groups (those in the contract) and control groups; and referral pattern changes—enrollees in the contract groups referred to lower-price providers relative to those in the control groups. This was done by repricing claims to the median 2010 price for each service within each practice.

For quality, we compared performance on ambulatory—nonhospital, primary care—process measures using a similar difference-in-differences approach with 2007–10 enrollee-level data. These were primary care-oriented measures under the direct control of providers, based on the Healthcare Effectiveness Data and Information Set (HEDIS) measures used by most health plans. We analyzed aggregate and individual measures in chronic care management, adult preventive care, and pediatric care.

VARIABLES For our spending analysis, the dependent variable was total enrollee medical spending, including enrollees' cost sharing. Spending was computed from claims-level fee-for-service payments made within the global budget. This is an accurate measure of medical spending based on utilization and negotiated fees, but it does not capture the quality bonuses or end-of-year budget reconciliation. For quality, the dependent variable was a dichotomous variable indicating whether the measure was met for an eligible member. *Eligibility* was defined by diagnoses; for example, only members with diabetes were eligible for diabetes measures. Quality performance was determined annually.

We controlled for age categories, interactions between age and sex, risk score, indicators for benefit design, and secular trends. Risk scores were calculated by Blue Cross Blue Shield of Massachusetts from current-year demographic information and diagnoses grouped by episodes of care—in a manner conceptually similar to the risk-adjustment method used by the Centers for Medicare and Medicaid Services for determining payments to Medicare Advantage plans.²² Higher scores denote lower health status and higher expected spending.

STATISTICAL ANALYSIS We analyzed spending (in 2010 dollars) at the enrollee-quarter level using a multivariate linear model with plan fixed effects and propensity weights calculated using age, sex, risk, and cost sharing.²³ Our model was not logarithmic-transformed because the risk score is designed to predict dollar spending and because linear models have been shown to adequately predict medical spending compared to more complex functional forms.^{24–27}

Additional independent variables included indicators for intervention status, quarter, interactions between quarters and intervention, the

post-intervention period, and the interaction between the post-intervention period and the intervention. This final indicator produced our estimate of the policy effect. Standard errors were clustered at the practice level.^{28,29}

We conducted a number of sensitivity analyses, including restricting the sample to five-year continuously enrolled subjects, controlling for risk or benefit design differently, and omitting propensity weights or cost sharing. Because 20 percent of enrollees did not have prescription drug coverage through the payer, we excluded drug spending from our base analyses but included it in a sensitivity analysis. We also performed an interaction test of the differential effect of the intervention between prior-risk and no-prior-risk groups.

Because patients with higher risk scores garner larger global budgets, we also tested for the possibility that providers may code more aggressively—that is, record a diagnosis or procedure of higher complexity than they otherwise would, in order to garner higher risk-adjusted budgets the following year. Such coding would make intervention subjects seem sicker and thus spending adjusted for health status seem lower.

We used analogous models to evaluate quality at the enrollee-year level, with year indicators in place of quarter indicators. For our aggregate quality analysis, we pooled measures and adjusted for measure-level fixed effects. All analyses used the statistical analysis software Stata, version 11. Results are reported with two-tailed *p* values. The Harvard Medical School Office for Research Subject Protection approved the study.

LIMITATIONS Given that subjects were enrolled in commercial plans in Massachusetts, our results might not be generalizable to other populations and areas. Commercial enrollees are younger and generally healthier than the Medicare population. Nevertheless, the two-sided contracting models used by the Medicare Pioneer and Shared Savings programs are similar to those used by the Alternative Quality Contract.

Because the intervention was not randomized, self-selection of provider groups into the contract was a concern. Although we did not have data on providers, we tested for differences in pre-intervention spending trends between intervention and control groups, which may suggest a self-selection bias; we found none.

Moreover, we did not observe details of each contract or provider risk contracting with other payers. The prevalence of global payment has grown in Massachusetts,⁶ and contracts with other payers may exert unobserved spillover effects in either our treatment or control groups. Lastly, our process quality measures did not capture all aspects of health care quality.

EXHIBIT 1

Characteristics Of The Study Population: Effects Of Alternative Quality Contract (AQC) In Blue Cross Blue Shield Of Massachusetts, 2006–10

Characteristic	AQC groups (intervention)				Non-AQC groups (control) (n=1,339,798)	
	2009 cohort (n=428,892)		2010 cohort (n=183,655)		Pre AQC (2006–08)	Post AQC (2009–10)
	Pre AQC (2006–08)	Post AQC (2009–10)	Pre AQC (2006–09)	Post AQC (2010)		
Age (years)	34.4 ± 18.6	35.5 ± 18.5	36.2 ± 18.2	37.9 ± 18.2	35.2 ± 18.7	35.3 ± 19.0
Percent female	52.6	52.1	51.7	52.0	51.8	51.1
HEALTH RISK SCORE^a						
Mean	1.08	1.16	1.18	1.25	1.11	1.15
Interquartile range	0.12–1.29	0.13–1.39	0.13–1.43	0.14–1.53	0.10–1.31	0.11–1.37
COST SHARING (%)						
Mean	13.9	16.1	14.4	16.7	13.8	15.8
Interquartile range	11.3–16.3	11.0–18.6	11.2–17.3	12.7–18.5	11.2–16.3	11.0–18.6

SOURCE Authors' analysis of 2006–10 Blue Cross Blue Shield of Massachusetts enrollment data. **NOTES** Plus-minus values are means–standard deviations. The total number of enrollees in the intervention and control groups exceeds 1,655,745 because some enrollees had one primary care physician in the intervention group and another in the control group for at least one year in each case. Cost sharing represents the average percentage of spending paid for out of pocket by the enrollee on common services, defined by using the most frequent Current Procedural Terminology (CPT) codes. ^aThe health risk score takes into account the health status of the enrollee and expected spending. See Note 21 in text.

Study Results

2009 INTERVENTION COHORT: YEAR 1 AND YEAR 2 EFFECTS There were 428,892 subjects with at least one year of continuous enrollment during 2006–10 in the 2009 cohort and 1,339,798 control subjects. Characteristics of the population are shown in Exhibit 1.

After implementation of the Alternative Quality Contract, average health care spending increased for both intervention and control enrollees, but the increase was smaller for intervention enrollees. Overall in 2009–10, statistical estimates indicated that the intervention was associated with a \$22.58 ($p = 0.04$) decrease in average spending per enrollee per quarter, relative to what spending would have been without the intervention (Exhibit 2). This amounted to a 2.8 percent average savings over two years.

Our prior analyses showed that savings in year 1 (2009) were 1.9 percent—a reduction of \$15.51 in quarterly spending per enrollee ($p = 0.009$).⁹ In comparison, in year 2 (2010) the intervention was associated with a \$26.72 ($p = 0.04$) reduction in average quarterly spending—a 3.3 percent savings.

The increased savings in year 2 were unrelated to the removal of the 2010 cohort from the control group in year 2 (the 2010 cohort belonged to the control group in year 1). The interaction of the secular trend with the intervention indicator produced a small and insignificant coefficient (\$0.62, $p = 0.65$), which meant that there were no significant differences in spending trends between intervention and control groups prior to the intervention.

Savings were substantially larger in the no-

prior-risk subgroup, whose providers entered the contract from fee-for-service. Over the first two years, the no-prior-risk subgroup demonstrated an average reduction of \$60.75 ($p = 0.02$) in quarterly spending—an 8.2 percent savings. Broken down by year, the group's year 1 savings were 6.3 percent ($p = 0.006$) and year 2 savings were 9.9 percent ($p = 0.003$) (Exhibit 3).

In contrast, the prior-risk subgroup saw smaller and insignificant reductions of \$13.42 ($p = 0.19$) per member per quarter over the post-intervention period. By year, the reductions were 1.1 percent in year 1 ($p = 0.13$) and 1.8 percent in year 2 ($p = 0.23$).

Throughout 2009–10, savings were concentrated in procedures, imaging, and tests. Moreover, reductions in outpatient facility spending accounted for 75 percent of the savings. The largest reductions in spending were found in enrollees in the highest risk quartile (Appendix Exhibit 3).¹¹ Analogous decompositions of savings in both subgroups were consistent (Appendix Exhibit 4).¹¹

All sensitivity analyses supported our main results (Appendix Exhibit 5).¹¹ An interaction test of the differential treatment effect between the prior-risk and no-prior-risk subgroups yielded $-\$22.58$ ($p = 0.04$). Furthermore, the Alternative Quality Contract was associated with a 0.02 ($p = 0.002$) annual rise in enrollee risk scores. This effect can explain about 5 percent of the intervention's effect on spending. However, we cannot distinguish between a true increase in risk and more aggressive coding resulting from incentives.

2010 INTERVENTION COHORT: YEAR 1 EFFECT

EXHIBIT 2

Change In Average Health Care Spending Per Member Per Quarter In The 2009 Intervention Cohort And Control Groups, Blue Cross Blue Shield Of Massachusetts Alternative Quality Contract (AQC)

Category/site and type of care	2009 AQC cohort (intervention)		Non-AQC groups (control)		Between-group difference	Between-group difference by year	
	Pre AQC (2006-08)	Post AQC (2009-10)	Pre AQC (2006-08)	Post AQC (2009-10)	Average 2-year effect	Year 1 (2009) effect	Year 2 (2010) effect
Total quarterly spending (\$)	803.98	863.26	842.63	924.49	-22.58**	-15.51***	-26.72**
BY BETOS CATEGORY (\$)							
E&M	182.48	217.66	183.40	222.63	-4.06	-2.22***	-5.32
Procedures	168.74	188.91	171.26	198.43	-7.00*	-5.96***	-7.62*
Imaging	95.66	103.23	103.16	116.41	-5.67***	-3.47***	-6.86***
Test	68.35	78.72	76.15	90.76	-4.24***	-3.72***	-4.28**
DME	9.96	12.39	11.15	14.01	-0.44	-0.14	-0.72
Other	49.24	53.04	55.80	57.41	2.19	0.80	3.41
Unclassified	195.66	201.86	206.06	216.73	-4.48	-0.80	-6.97
BY SITE AND TYPE OF CARE (\$)							
Inpatient professional	35.55	38.64	35.39	39.22	-0.73	-0.72	-0.51
Inpatient facility	157.17	165.02	163.54	174.91	-3.53	0.23	-6.23
Outpatient professional	319.28	367.61	302.66	352.55	-1.57	-0.28	-2.31
Outpatient facility	218.06	243.02	263.69	306.79	-18.14***	-14.50***	-20.00**
Ancillary	40.03	41.50	41.71	42.92	0.26	-0.24	0.68

SOURCE Authors' analysis of 2006–10 Blue Cross Blue Shield of Massachusetts claims data. **NOTES** Sample sizes are presented in Exhibit 1. BETOS categories are Berenson-Eggers Type of Service (BETOS) classification, 2010 version (see Note 20 in text). All spending figures are in 2010 US dollars. E&M is evaluation and management. DME is durable medical equipment. * $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$ **** $p < 0.001$

The 2010 cohort consisted of 183,655 enrollees whose characteristics were similar to those of the 2009 cohort (Exhibit 1). In its first year, the 2010 cohort—all no-prior-risk organizations—experienced a decrease of \$42.82 ($p = 0.001$), or 5.5 percent, in average quarterly spending. This amount is similar to the 6.3 percent year 1 savings of the 2009 cohort's no-prior-risk subgroup (Exhibit 3). Decomposition of the 2010 cohort's year 1 savings produced similar findings to those for the 2009 cohort's no-prior-risk subgroup (Appendix Exhibit 6).¹¹

PRICE VERSUS UTILIZATION Estimates from the 2010 cohort revealed that reductions in utilization relative to the control group accounted for about 50 percent of the cohort's savings in year 1. This result was consistent with findings from the 2009 cohort's no-prior-risk subgroup after two years. However, we found no significant changes in utilization in the prior-risk subgroup, which constituted the bulk of the 2009 cohort. This outcome was consistent with the insignificant spending effect in this subgroup.

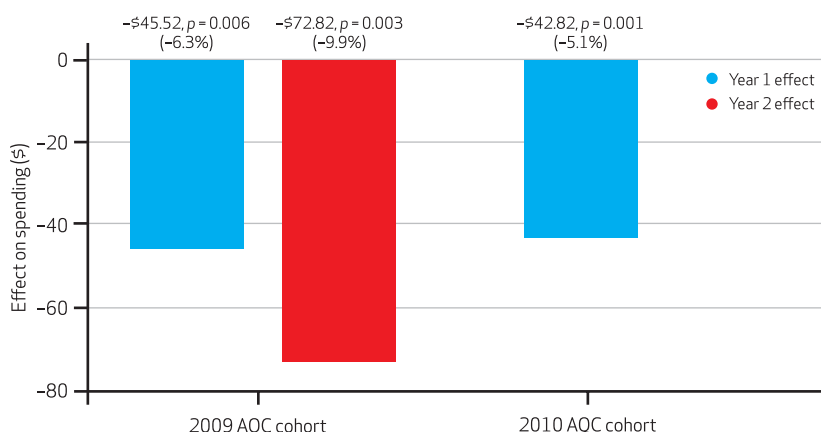
Direct analyses of utilization by clinical category showed heterogeneous effects on utilization. Some suggestive evidence of substitution from higher- to lower-cost services in areas such as imaging and tests was evident. However, we were not able, using claims data, to evaluate implications for the value or appropriateness of

services due to these changes.

We found no differences in price trends between intervention and control providers. Spending models using prices standardized by practice revealed that the price effect was largely

EXHIBIT 3

Estimated Year 1 And Year 2 Effects Of The Alternative Quality Contract (AQC) On Spending In The 2009 And 2010 Cohorts' No-Prior-Risk Groups, Blue Cross Blue Shield Of Massachusetts



SOURCE Authors' analysis of 2006–10 claims data from Blue Cross Blue Shield of Massachusetts. **NOTES** The figure shows difference-in-differences estimates of the separate year 1 and year 2 effects of the AQC on health care spending per member per quarter. For descriptions of the 2009 and 2010 cohorts, see the text.

due to referrals of intervention subjects to facilities and providers charging lower fees (Appendix Exhibit 7).¹¹

QUALITY Improvements in ambulatory care quality measures associated with the intervention were larger in year 2 than in year 1. After two years, the contract was associated with a 3.7 percentage point increase per member per year among eligible members meeting quality performance targets for chronic care management ($p < 0.001$) (Exhibit 4). Broken down by year, we estimated a 4.7 percentage point increase in year 2 ($p < 0.001$) and a 2.6 percentage point increase in year 1 ($p < 0.001$).

For adult preventive care, statistical estimates showed a 0.3 percentage point ($p = 0.008$) yearly improvement. Year 2 improvement was 0.7 percentage point ($p < 0.001$), while that of year 1 was an insignificant 0.1 percentage

point ($p = 0.67$).

Ambulatory measures for pediatric care improved 1.3 percentage points ($p < 0.001$) per year over the two years, with similarly larger effects in year 2 (1.9 percentage points, $p < 0.001$) than in year 1 (0.7 percentage point, $p = 0.001$). Analogous estimates among the two subgroups and the 2010 cohort yielded similar results (not shown).

Formal evaluation of outcome quality measures could not be conducted because of the lack of pre-intervention enrollee-level outcome data. However, an unadjusted analysis of weighted averages for five outcome metrics across provider organizations suggests that intervention groups achieved better or comparable outcomes in 2009–10 relative to recent Blue Cross Blue Shield of Massachusetts network averages (Exhibit 5).

EXHIBIT 4

Change In Performance On Ambulatory Care Quality Measures In The Intervention And Control Groups, Alternative Quality Contract (AQC), Blue Cross Blue Shield Of Massachusetts

Quality metric	2009 AQC cohort (intervention)		Non-AQC groups (control)		Between-group difference, by year		
	Pre AQC	Post AQC	Pre AQC	Post AQC	Average 2-year effect	Year 1 (2009) effect	Year 2 (2010) effect
Chronic care management (aggregate)	79.1	83.3	79.7	80.0	3.7****	2.6****	4.7****
Cardiovascular LDL cholesterol screening	88.6	91.1	90.2	89.8	3.0****	1.8**	4.5****
Diabetes							
HbA1c testing	89.3	92.4	89.3	90.3	2.1****	1.7****	2.5****
Eye exam	58.5	65.2	61.7	61.2	7.2****	5.5****	8.8****
LDL cholesterol screening	86.6	90.6	86.2	86.9	3.3****	2.8****	3.8****
Nephrology screening	85.1	88.3	83.6	83.7	2.9****	1.6***	4.2****
Depression							
Short-term Rx	67.2	68.0	66.9	66.9	0.5	-1.1	1.6
Maintenance Rx	51.2	53.8	51.1	50.5	2.9*	1.1	3.9*
Adult preventive care (aggregate)	75.7	80.0	72.8	76.5	0.4****	0.1	0.7****
Breast cancer screening	80.2	83.7	79.6	81.1	1.2****	0.6***	1.9****
Cervical cancer screening	87.3	87.7	84.3	85.1	-0.4*	-0.5****	-0.3
Colorectal cancer screening	64.2	71.7	59.7	67.1	0.0	0.0	0.3
Chlamydia screening for enrollees ages 21–24	58.6	65.8	53.9	61.2	0.0	-0.8	0.7
No antibiotics for acute bronchitis	18.7	28.1	19.9	21.1	9.4****	5.5****	13.1****
Pediatric care (aggregate)	79.5	82.8	74.7	77.1	1.3****	0.7***	1.9****
Appropriate testing for pharyngitis	93.9	96.1	81.8	90.5	-6.1****	-3.9****	-7.5****
Chlamydia screening for enrollees ages 16–20	54.8	66.0	51.3	55.9	6.8****	5.4****	8.2****
No antibiotics for upper respiratory infection	94.9	95.5	92.1	93.7	-1.0*	-0.4	-1.8***
Well care							
Babies age <15 months	93.0	94.0	92.5	93.4	0.2	-0.1	0.6****
Children ages 3–6 years	92.3	94.8	90.0	91.3	1.1****	0.6*	1.6****
Adolescents ages 12–21 years	73.8	77.9	69.1	71.9	1.7****	0.1****	2.5****

SOURCE Authors' analysis of 2007–10 quality data, Blue Cross Blue Shield of Massachusetts. **NOTES** The pre-AQC period was 2007–08, and the post-AQC period was 2009–10. For descriptions of intervention and control groups, see the text. Adjusted results are from a propensity-weighted difference-in-differences model controlling for all covariates. Pooled observations were used for the aggregate analyses of chronic care management, adult preventive care, and pediatric care; the analyses were further adjusted for measure-level fixed effects. HbA1c is hemoglobin A1c. LDL is low-density lipoprotein cholesterol. * $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$ **** $p < 0.001$

EXHIBIT 5
Outcome Quality For Alternative Quality Contract (AQC) Groups And The Blue Cross Blue Shield Of Massachusetts Network Average, 2006–10

	BCBS network average (%)				AQC weighted average (%)			
Condition/outcome measure	2007	2008	2009	2010	2009 cohort (2009-10)	2010 cohort (2010)	All AQC (2010)	
DIABETES								
HbA1c control (<9 percent)	83.7	79.8	82.0	80.7	80.7	82.0	79.2	81.2
LDL cholesterol control (<100 mg/dL)	45.7	51.3	51.3	54.7	57.7	59.5	54.3	58.0
Blood pressure control (130/80)	30.9	36.7	38.0	35.8	44.3	49.1	38.9	46.0
HYPERTENSION								
Blood pressure control (140/90)	68.4	70.3	69.5	67.5	68.4	73.9	71.1	73.0
CARDIOVASCULAR DISEASE								
LDL cholesterol control (<100 mg/dL)	64.2	69.5	69.5	69.5	69.9	71.3	63.9	69.0

SOURCE Authors' analysis of 2006–10 claims data, Blue Cross Blue Shield of Massachusetts. **NOTES** Scores denote the percentage of eligible enrollees who met the quality criteria as defined. Scores are weighted by eligible members for each measure and are unadjusted averages. BCBS is the Blue Cross Blue Shield of Massachusetts network. HbA1c is hemoglobin A1c. LDL is low-density lipoprotein cholesterol.

BLUE CROSS BLUE SHIELD PAYMENTS Our findings do not imply that overall spending fell for Blue Cross Blue Shield of Massachusetts in 2009–10. Ten of the eleven organizations in the contract spent below their 2010 budget targets, earning a budget surplus payment. In general, surplus payments earned by each cohort were no more than half of the medical savings generated by the cohort. An exception to this was the 2009 prior-risk cohort, for which total payments exceeded savings generated.

All organizations earned a 2010 quality bonus, and most received infrastructure support. This result makes it likely that total Blue Cross Blue Shield payments to groups in 2010 exceeded medical savings achieved by the group that year.

Discussion

In year 2, the Alternative Quality Contract was associated with a greater decrease in medical spending growth and larger improvements in ambulatory care quality than in year 1, relative to control. Outpatient facility spending on procedures, imaging, and tests accounted for the bulk of savings. In both years, savings were largest among enrollees with the highest expected spending and were concentrated in organizations without risk-contracting experience. Results were robust to sensitivity analyses and did not appear to be attributable to upcoding.

Lower prices from changes in referral patterns drove the spending slowdown overall. However, lower utilization explained about half of the savings among enrollees of providers without risk-contracting experience. These results build on findings from Medicare's Physician Group Practice Demonstration, in which provider organizations in one-sided shared savings contracts im-

proved quality but had more difficulty lowering spending.^{7,30}

In year 1, total Blue Cross Blue Shield payouts to groups in the contract probably exceeded savings under the global budget.⁹ In year 2, savings achieved by the intervention group were generally larger than the surplus payments received. However, total payments to groups from Blue Cross Blue Shield of Massachusetts, including surplus sharing, quality bonuses, and infrastructure support, probably exceeded the savings achieved by most groups that year. This outcome reflects the design of the contract, which set targets based on actuarial projections to save money over its five-year duration, accounting for anticipated quality bonuses and other payments.

In addition, health care spending growth in Massachusetts slowed in this period as a result of general economic factors. These were probably not anticipated by Blue Cross Blue Shield when the contracts were signed and budget targets for the 2009–10 period agreed to.

Initial investments by Blue Cross Blue Shield probably helped motivate participation and support the changes required for providers to succeed in managing spending and improving quality. The long-term success of the model will depend both on how well budgets and bonuses are set and how well groups are able to allocate resources and improve quality within budgets that grow more slowly each year.

The increased slowing of spending growth from year 1 to year 2 suggests that global budgets may be an effective tool to use in helping control health care spending, but also that organizations need time to implement changes. At the same time, improvements in quality supported by sizable pay-for-performance incentives may effec-

tively buffer against stinting on care.

Collectively, global budgets and pay-for-performance may provide a palatable set of incentives for provider groups to participate in delivery system reforms that encourage accountability and reduce waste. Successful transitions to practice models that support global budgets will require providers to protect quality and patient satisfaction.

This model is informative for the broader movement toward accountable care organizations.^{3,31-33} Of the thirty-two Medicare Pioneer Accountable Care Organizations that began three-year risk contracts in 2012, five also participated in the Alternative Quality Contract.

Our findings suggest that changes in utilization

are possible in the early years of a global payment contract for participants entering from fee-for-service, whereas savings among providers with risk-contracting experience derived mostly from referrals to less costly providers. Medicare, which regulates prices, may be able to achieve savings only through changes in utilization. Thus, incentives for Medicare beneficiaries and their providers to lower volume without sacrificing quality are key.

As global payment contracts expand across the country,^{34,35} supportive partnerships between payers and provider groups may help providers take accountability for spending while improving the quality of care for patients. ■

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In this month's *Health Affairs*, Zirui Song and his coauthors report on results from the second year of the Alternative Quality Contract, an arrangement under which Blue Cross Blue Shield of Massachusetts (BCBSMA) agreed to pay eleven provider organizations through global budgets and share the savings if the organizations reached spending and quality benchmarks. The authors found that the rate of increase in medical spending for these organizations slowed, compared to the rate for control groups, more so in the second year than in the first—even

as performance on quality measures improved. The authors say that these results may inform similar accountable care organization contracts such as those now in Medicare and highlight the importance of collaborative partnerships between payers and providers.

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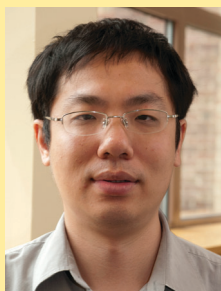
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